

RESOURCES AND POTENTIAL GROWTH AREAS

Development Patterns and Philosophy

The City of Morgan Hill began as an agricultural community centered around Rancho Ojo de la Coche. Development occurred along the railroad lines, and the City steadily expanded and incorporated in 1906. Post World War II land annexations brought many to Morgan Hill seeking residential developments. When U.S. Highway 101 was opened in the late 1970s, suburban commuting became more popular and the City experienced a population boom. With easy access to surrounding cities, residential developments were dispersed throughout the City. The rapid development caused the City to adopt the Residential Development Control System, a voter initiative, to limit the amount of growth that may occur in Morgan Hill each year. This growth philosophy has continued to be important in guiding the City's future, and there is a desire to maintain and preserve the community created by this philosophy. Since the development pattern was dispersed and did not form a contiguous pattern in the City, there are a significant number of vacant sites where infill development may occur.

Vacant and Underutilized Land

Morgan Hill encompasses approximately 7,800 acres of land, of which approximately 2,000 (25 percent) are vacant. There are approximately 741 acres of vacant and underutilized residential land available within the City, primarily located on the valley floor. This land could be developed with single-family or high-density residential uses. Residential vacant and underutilized land is summarized in Table 28 by zoning district and parcel size. Tables B-3 and B-4 provide parcel-specific, detailed information on which Table 28 was based.

As shown in Table 28, the City can accommodate approximately 2,500 dwelling units on vacant residential land and commercial properties that permit residences. In addition, underutilized sites have the potential for development of more than 800 additional units. This potential for more than 3,300 units is in addition to the 2528 units that have been authorized to be constructed to meet the RHND through June, 2006. Tables B-3 and B-4 provide a complete listing of the parcels which were included in the summary on Table 28. A map showing the location of the vacant and underutilized parcels is available at the Community Development Department.

The densities assumed for the vacant and underutilized land reflect typical densities of existing development in each zoning category. They account for routine dedications for street widenings and accommodations for storm water retention. These densities are based upon a study of existing Morgan Hill residential developments that was conducted in 1996. A review of more current residential projects indicates that the densities identified in the study continue to be the densities at which current projects are built. These densities are all within the density ranges specified in the General Plan for each residential designation. These assumed densities are shown on Table 28.

All underutilized parcels are developed with one single family house and associated structures. The density calculation for underutilized parcels in single family zones assumes that the existing houses will remain and utilize twice the minimum area allowed for the zoning district. After subtracting for the existing houses, the density assumed for the remainder is the same as that used for vacant parcels. The density calculation for

underutilized multi-family parcels assumed that parcels of one acre or less in size would not be further developed. Parcels larger than one acre were assumed to fully redevelop, including demolition of the existing houses. The density assumed is the same as that used for vacant parcels. This latter calculation involves a total of six parcels.

The inventory of vacant sites within the multi-family and mixed use zones includes many sites which are less than one acre in size. These sites may be more costly to develop on a per-unit basis and therefore less affordable to persons of lower incomes. However, these smaller sites are anticipated to accommodate approximately 100 of the 1,985 units (approximately 5 percent) of the total multi-family units. This is considered an insignificant number, particularly when considering that these potential units are all in addition to the units that will be provided to meet the City's RHND.

The City's current land use patterns do not make it difficult to accommodate the City's share of regional housing needs for very low-, low-, and moderate-income households under ABAG's plan, as there is sufficient land zoned throughout the City for all housing types. Maximum residential densities in the City's residential zones range from one dwelling unit per five acres to 40 dwelling units per acre. The City's potential to accommodate affordable housing could be increased through higher densities than currently permitted along arterial roads (such as Monterey Road), higher densities for housing in commercial zones, and incentives to construct housing in commercial zones (including dwelling units over or behind ground-level commercial structures in the historic downtown district). However, higher densities, by themselves, may not contribute significantly to housing affordability if three-story construction is necessary to achieve the higher density.

Table 28

Vacant and Underutilized Residential Lands by Zoning District (2006)

Zone	Acreage	Estimated Density (units/acre)	Potential Dwelling Units Under Current Zoning
Vacant Land within City Limits			
RE 100,000	33	0.4	12
RE 40,000	46	0.9	39
R-1 20,000	31	1.75	48
R-1 12,000	87	2.7	227
R-1 9,000	22	3.1	67
R-1 7,000	36	4.0	124
R-2 3,500	93	7.75	685
R-2 3,000	25	9.0	229
R-3	32	17	542
R-4	13	22.9	413
CC-R	10	12	116
Total	431		2502
Underutilized Land within City Limits			
RE 100,000	27	0.4	8
RE 40,000	22	0.9	11
R-1 20,000	131	1.75	225
R-1 12,000	9	2.7	22
R-1 9,000	13	3.1	35
R-1 7,000	82	4.0	314
R-2 3,500	22	7.75	167
R-2 3,000	4	9.0	39
Total	310		821
Grand Total	741		3323

Source: City of Morgan Hill, 2006.

Commercial Districts that Can Accommodate Affordable Housing

The City allows multi-family residential use in its CC-R zone. Approximately 10 acres of these commercial lands are vacant. These lands can be further developed to medium/high densities to accommodate affordable housing, depending on the location.

Sites with Redevelopment Potential

Re-use potential in Morgan Hill is prominent within the Ojo de Agua Community Development Area (Project Area). In 1981, plans were adopted for the Project Area to reduce the blight and inappropriate mix of uses in the area. This portion of Morgan Hill consists of the older homes and structures that were constructed over 50 years ago and now form the central portion of Morgan Hill. Since the 1981 a redevelopment plan was adopted, the City was able to improve some aspects of blight. Improvements were made to utilities and services and debris was cleared. Additional services were developed and property owners were given grants/loans to restore their homes. The City accomplished numerous other improvements, but overall blight conditions in the Project Area remained. In May 1999, the Agency and City approved an amendment to the Community Plan for the Ojo de Agua Community Development Project (Plan Amendment). The purpose of the Plan Amendment was to allow the City to continue its efforts to eliminate physical and economic blight in the Project Area. These efforts include the development of much needed community facilities such as a community center, indoor recreation center, library, aquatic center, street improvements, flood control projects, and economic development programs. The combination of improvements and programs will encourage the private sector to invest in the reuse of underutilized properties in the Project Area. The Plan also established an on-going revenue source for the continued development of affordable housing in the community.

CONSTRAINTS

NON-GOVERNMENTAL CONSTRAINTS

Land Costs

Land costs are a major inhibitor to building in Morgan Hill. According to the California Association of Realtors, housing prices have been stabilizing in the area, and have actually fallen 9 percent from July 2000 to July 2001. This reflects a stabilizing economy in the area, and rather high costs in comparison to other regions of the State. A search of LoopNet® Internet land-for-sale records uncovered one vacant multi-residential property for sale in Morgan Hill. Ten acres of multi-residential land is located on San Pedro Avenue for \$5,875,000. Coldwell Banker had one 0.46-acre residential lot listed for \$225,000. A search of residential land currently on the market resulted in 12 different lots, but without identification as to the size of the property. Prices for vacant land ranged from \$224,950 to \$5,875,000 or about \$500,000 per acre. Land values for residential properties are significantly impacted by whether the property has an allocation under the City's RDCS. Appraisers indicate that residential land without an allocation will be valued on a square footage basis and that land with an allocation will be valued on a per unit basis which results in a substantially higher value per acre (Hulberg and Associates).

Given these high land costs, it is unlikely that increases in density (such as a 25 percent density bonus) would significantly reduce the unit cost of building a dwelling unit to the level of affordability for very low-income persons. The City has implemented a number of redevelopment and other programs to address very low-income housing needs and the additional subsidies that would be needed to increase the feasibility of producing very low-income housing.

Construction and Labor Costs

The most significant constraint on development of new housing in Morgan Hill is the overall cost of housing, including land costs and construction costs. Many factors can affect the cost to build a house, including the type of construction, materials, site conditions, finishing details, amenities, and structural configuration. Development costs were developed from estimates provided by Scott Schilling of South Valley Developers.

Permitting costs in Morgan Hill are about \$22,000 for an average size home. The total includes school district fees, building permits, and public works fees.

Raw land in the R-1 zone averages \$250,000 per acre. Once a vacant parcel is purchased, the contractor has to make certain site improvements to prepare for building on the property. Such improvements include connections to existing utility systems, rough grading, and installation of water and sewer lines. This type of work generally costs between \$30,000 to \$35,000 depending on the amount of work required at each location.

Materials and labor have a wide range of costs depending on the type of materials used for construction. Typically more expensive materials are used for custom homes, which

ranged from \$140 to \$200 per square foot. An average quality construction single-family home generally costs less because the materials are less expensive and easier to handle. These material and labor costs for these homes cost around \$65 per square foot.

In addition to site improvement costs and the cost for building materials, there are engineering and architecture soft-costs, which can range from \$7,000 to \$8,000 per lot. Additional costs such as loan fees average about \$15,000 per lot.

At the costs listed above, none of the very low-or low-income households, and few moderate-income households in Morgan Hill can afford to build a home in the area. The scarcity of easily developable affordable land, combined with the great demand, indicates that housing construction costs are likely to remain high in the future. Morgan Hill will continue to follow the trend that is occurring throughout the Bay Area and the Silicon Valley.

Availability of Financing

There are no local constraints to the availability or cost of financing for home purchases or rehabilitation that differ significantly from the availability and cost of financing generally in California. Even in older neighborhoods of the City, there are no barriers to obtaining financing for home purchase, improvement, or construction (other than customary underwriting considerations by lenders). Residents with lower incomes may face some barriers related to income and ability to afford housing when they are considering financing. Because most homeowners and homebuyers in Morgan Hill have moderate or higher incomes, there are few barriers to obtaining financing relating to income—the primary consideration is whether the housing price or home improvement cost is consistent with the borrower's ability to make monthly loan payments.

The primary factor related to home finance affecting housing affordability and availability is the cost of borrowing money (interest rates). Historically, substantial changes in interest rates have correlated with swings in home sales. When interest rates decline, sales increase. The reverse has been true when interest rates increase. Over the past two decades, there has been a dramatic growth in alternative mortgage products, such as graduated mortgages and variable rate mortgages. These types of loans allow homeowners to take advantage of lower initial interest rates and qualify for larger home loans. Even during periods of high interest rates, these alternative products allow more buyers to qualify for homeownership, thus dampening the swings in home sales that accompany changes in interest rates.

Nevertheless, the fixed interest rate mortgage remains the preferred type of loan, especially during periods of low, stable interest rates. Most governmental programs that seek to increase homeownership among low- and moderate-income households rely on loan products that provide fixed interest rates below prevailing market rates, either for the principal loan or for a second loan that provides part of the down payment for home purchase. Many programs offer deferred second loans to facilitate homeownership. Table 29 shows various monthly payments necessary to service mortgages at various interest rates. As of September 2001, financing is currently an average of 6.7 percent for a fixed-rate 30-year mortgage up to \$275,000—the lowest rate in two years.

Table 29

Monthly Payments and Total Interest at Various Interest Rates

Interest Rate	15-Year Loan			30-Year Loan		
	Payment per \$10k	Total Interest Paid	% Difference Payment/Interest	Payment per \$10k	Total Interest Paid	% Difference Payment/Interest
6%	\$84.39	\$5,189	---	\$59.96	\$11,583	---
7%	\$89.88	\$6,178	6.5%/19.0%	\$66.53	\$13,950	11.0%/20.4%
8%	\$95.57	\$7,202	6.3%/16.6%	\$73.38	\$16,415	10.3%/17.7%
9%	\$101.43	\$8,256	6.1%/14.6%	\$80.46	\$18,966	9.6%/15.5%
10%	\$107.46	\$9,343	5.9%/13.2%	\$87.76	\$21,593	9.1%/13.9%

Source: Parsons, 2001.

Environmental Constraints

There are few environmental constraints in Morgan Hill as most residential lots are located on the valley floor, and very few vacant hillside lots are designated or zoned for residential development. Environmental constraints in Morgan Hill primarily involve geological issues related to hillside development, development within the flood zone and earthquake. Like most other areas of the state, Morgan Hill is located on a number of active fault lines, particularly in the northeastern portion of the City. Most notably, the Coyote Creek thrust faults, Silver Creek fault, Range Front thrust fault, and Calaveras fault zone. In addition, a few areas of the valley floor are subject to flooding during a 100-year storm event. Although these environmental factors exist in the City, they do not pose a significant constraint to the future development of housing in Morgan Hill as relatively few residential parcels are located in hillside or flood-prone areas. Units proposed within sensitive environmental areas, such as dam inundation zones or sensitive wildlife habitat, or within the vicinity of other environmental constraints are subject to CEQA.

GOVERNMENTAL CONSTRAINTS

Residential Development Control System

The voters of Morgan Hill first passed a residential growth control system in 1977. That initiative, Measure E, has been updated and extended twice, most recently in 2004, as Measure C. Parts of the initiative have been codified in the City's General Plan while other parts have been included in the City Zoning Ordinance. Collectively, the initiative is referred to as the Residential Development Control System (RDCS). The provisions of the initiative can only be changed by the affirmative vote of the City electorate. The initiative applies to all residential development except secondary dwelling units and one-dwelling unit developments that are not part of larger projects.

The initiative establishes a population ceiling for the City of 48,000 persons in the year 2020. This population is consistent with the level of development projected by the City General Plan. The initiative includes a formula that determines the number of residential permits that can be issued annually. The formula is intended to ensure that housing development occurs at a consistent rate and that the population ceiling of 48,000 is not exceeded prior to 2020. The formula subtracts the current population, as determined by the State Department of Finance from 48,000 and divides the resultant by the number of years between the current year and 2020. That resultant population is then divided by the number of persons per household, as reported by the Department of Finance for the current year. Application of this formula results in approximately 250 permits being granted each year. Unlike the earlier initiatives, Measure C includes a provision that is intended to minimize the fluctuation of the annual allocation from year to year. Specifically, the initiative requires that the estimated population that would be housed in any authorized residential units that have not been finalized (and incorporated into the Department of Finance estimate) be added to the current year population for the purposes of the calculation. This moderates the number of permits approved annually and ensures that the number does not decline over time. The initiative precludes permits from being authorized during emergency periods when public services and infrastructure are severely limited. The availability of infrastructure has not been a development constraint for many years and the potential for an emergency development moratorium is not anticipated in the foreseeable future.

Permits for residential projects are typically approved once annually, through a competitive process involving all projects proposed for development for a given year. That process utilizes an objective point system to evaluate proposed projects against 14 criteria. The criteria address such aspects of development as design, diversity of housing types, the provision of affordable housing, and the potential impact on public facilities, traffic, infrastructure, and public services. Projects that receive at least 7.5 points for factors relating to impacts on existing facilities and at least 160 points (150 points for 100 percent affordable and very small projects) for factors relating to design and amenities (including affordable or senior housing) are eligible for permits. If there are more housing units in projects that exceed the minimum required points than there are permits available, projects receiving the most points are awarded permits. Approvals are granted by the Planning Commission. Appeals of the Commission's actions are heard by the City Council. The RDCS process requires approximately five months to complete.

The affordable housing factor, described above, grants additional points to projects that commit five to ten percent of the total number of project units to be deed-restricted affordable to persons/families of low or moderate income. The greater the percentage of affordable units (up to 10 percent) and the greater level of affordability provided, the greater the number of points awarded. To qualify for points, for-sale projects must incorporate units that are affordable to persons/families of low or median income. To qualify, rental projects must incorporate units that are affordable to persons/families of very low or low income. While not required, most projects propose 10 percent of the units to be affordable in order to improve their potential for receiving permits through the process. This results in approximately 70 deed-restricted affordable units being provided annually.

Very small projects (five or fewer units) and projects that are 100-percent affordable typically are not able to achieve the same number of points in the competitive process as

larger projects and projects that are predominantly available at market rate prices. In order for these types of projects to be fairly treated in the competitive process, they are evaluated separately from the larger, market rate projects.

The RDCS and the City's General Plan require that 20 percent of all permits (or approximately 50 permits annually) be issued to 100-percent affordable projects. These projects are typically built by non-profit housing providers with funding support from the City's Redevelopment Agency.

Taken together, the 50 units in 100-percent affordable projects and the 70 deed restricted units in market rate projects result in approximately 28 percent of all new units being affordable to persons/families of very low, low or moderate income.

Architectural and Site Plan Review

The City has adopted a Design Review Ordinance to regulate new construction within the City. This Ordinance includes guidelines and standards for site planning, landscape and building design. An Architectural Handbook has been developed to graphically illustrate the concepts and standards of the Ordinance. The Ordinance requires an architectural and site plan review procedure for all residential developments (except custom homes or duplexes approved outside of the RDCS process).

Applications for RDCS approval are required to include conceptual site plans and architectural plans for the proposed projects. Those projects approved under the RDCS program must subsequently submit detailed plans for design review. This process evaluates proposed structures and site plans for their conformance with City codes and standards and consistency with the plans approved under the RDCS. Plans submitted for architectural and site plan review cannot vary substantially from the conceptual plans submitted for the RDCS process and approval of architectural and site plans also cannot vary substantially from the RDCS-approved plans.

Projects requiring architectural and site plan review submit an application and building plans to the Development Review Committee. Applicants meet with the City staff to review the plans, and if necessary, submit additional documentation or revisions. The City's Architectural and Site Review Board is responsible for approval of these plans. Approvals must include findings that the projects conform with the provisions of the Design Review Ordinance and are consistent with other City ordinances. The architectural and site plan review process requires approximately ten weeks of review, possibly more if CEQA documentation is required. Review fees average approximately \$2,000. Minor changes are often required, but major changes are rarely required. According to the City of Morgan Hill, there have been few, if any, instances where a reduction in density was required unless the project exceeded the maximum density requirements of the Zoning Code.

Hillside Development

Although few vacant parcels in the City are located in the hillside areas, development of these areas carries environmental and financial risks and constraints. Due to environmental constraints, particularly unstable soils and topography, development densities are limited to single-family homes on large lots. However, since there is little

developable hillside land, hillside development is not as significant a constraint as environmental factors, such as flooding within the valley floor.

Maintaining Public Open Space

The City is dedicated to the preservation of its open space. Open space is a valuable resource as it discourages noncontiguous development patterns that result in sprawl and inefficient use of community service funds. Open space also maintains the natural character of the area so that urbanization does not uncontrollably expand and cities do not lose their natural resources. Open spaces are beneficial to the responsible growth of cities and offer many environmental, recreational, and psychological benefits to the community. The City's existing open space lands are diverse in scale, use, and level of improvement. Measure P prohibits redesignation of open space lands through 2010.

Land Use Controls

Historically, Morgan Hill has been a single-family home community. The basis of the community's identity has been low-density residential neighborhoods that maintain a semi-rural feel to the City. The preservation of hillside and other open spaces, and active agricultural lands has been integral to maintaining this community vision.

Over the past 20 years, countywide employment growth and redevelopment in many developed communities have created large demands for additional housing. Over the past decade, in particular, Morgan Hill has been greatly affected by the extreme increase in housing costs that have accompanied the shortage of housing countywide.

Residential uses are permitted in residential zones as shown in the table below. Limited residential uses are permitted only in the CC-R commercial zone, with the exception of caretaker residences that are permitted in most commercial zones. This significantly constrains opportunities to locate housing units outside of residential zones.

Hillside Combining District

The Hillside Combining District was established to provide orderly development of hillside areas that preserves significant environmental features. Although very few hillside parcels are appropriate for residential development, this district applies to all areas within the City limits containing an average slope of 10 percent or more. The Hillside Combining district acts as an overlay district, where lots are subject to the requirements established by their original zoning and also the requirements of the Hillside zoning. Construction is prohibited on areas with slopes in excess of 20 percent. Building densities in these areas decrease as the slope increases at a rate of "average slope times 2,000 equals minimum lot size." If the average slope of a parcel is over 50 percent, the minimum lot size is five acres. If a lot has a slope of 10 percent or less, one housing unit may be constructed per lot; however, no homes may be located on a ridgeline. Significant trees located within this district are to be protected. It should be noted that transferable residential development credits may be given for hillside areas in excess of 20 percent slope. The transfer rate equates to the number of acres divided by the minimum lot size, multiplied by two. These transfer credits can be used toward the development of a dwelling unit with a designated "recipient site" in a more appropriate location within the City.